

# **1H FY2017 Earnings Results Briefing**

**December 1, 2017**



## Summary of 1H FY2017 Earnings Results

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# **Section I**

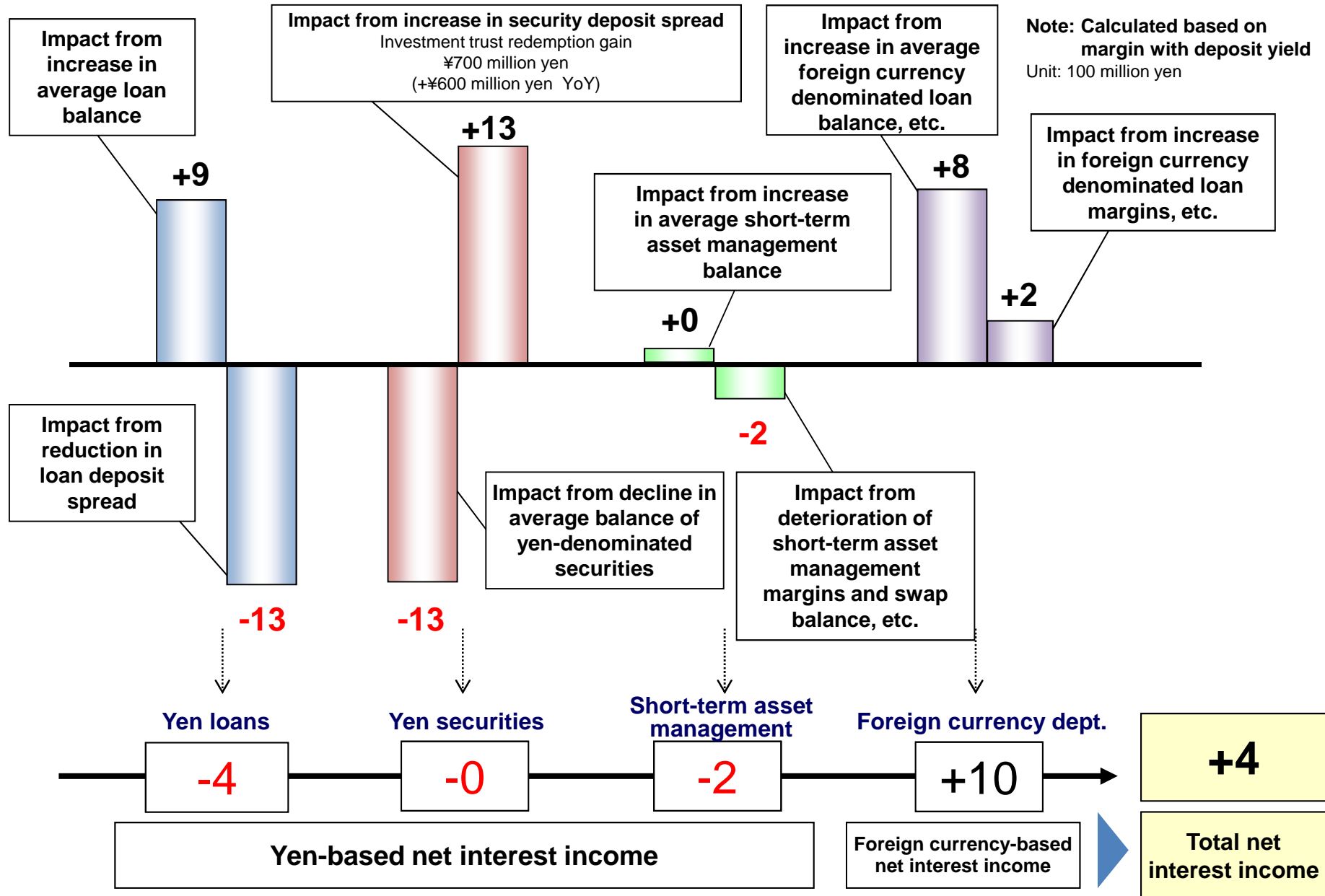
## **Summary of 1H FY2017 Earnings Results**

# 1H FY2017 Earnings Results –Summary–

(100 million yen)	1H FY2014	1H FY2015	1H FY2016	1H FY2017	YoY	Vs. plan
	Core business gross profit	439	436	409	401	-8
Interest income	362	358	334	338	4	7
Fees and commissions	74	74	76	71	-5	-1
Other operating income	2	3	-1	-7	-6	8
Expenses (-)	-289	-277	-281	-287	-6	-0
Core business net profit	150	158	127	114	-13	14
OHR (%)	65.8	63.6	68.8	71.4	2.6	-2.6
Credit expense (+ is reversal (profit))	18	26	27	26	-1	5
Bond sales gains/redemption	2	4	7	-3	-10	12
Equity sales gains/redemption	15	26	9	4	-5	-7
Other	10	12	2	-2	-4	-2
Recurring profit	196	229	173	140	-33	22
Extraordinary gain/loss	-2	-1	-1	-1	-0	0
Net income	129	155	121	98	-23	18
Consolidated recurring profit	213	242	184	153	-31	27
Net income attributable to owners of parent	135	160	125	105	-20	22

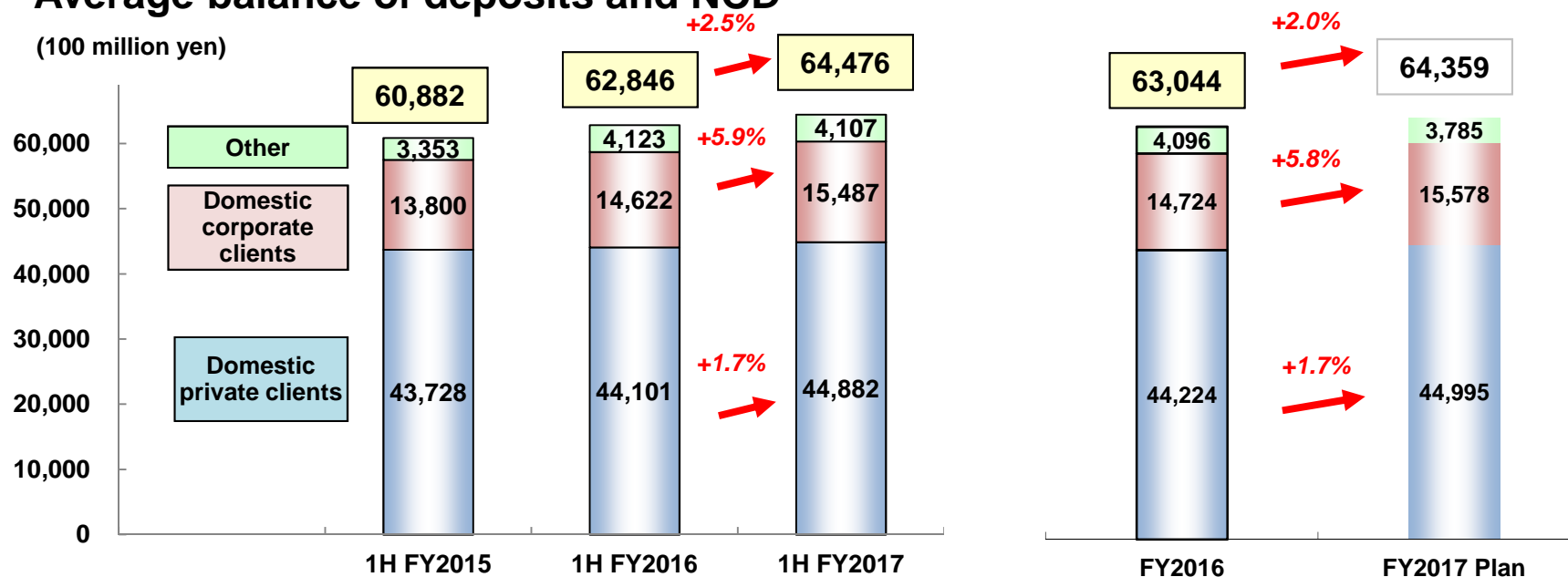
- Interest on loans and discounts increased due to growth in average loan balance. Net interest income increased 0.4 billion yen year on year.
- Core business net profit decreased 1.3 billion yen year on year due to a decrease in other operating income owing to a rise in foreign-currency procurement costs, as well as an increase in expenses.
- Recurring profit decreased 3.3 billion yen year on year due to the sale of low yield foreign bonds and a drop in gain on sale of shares.

# 1H FY2017 Earnings Results –Change in net interest income–



## Average balance of deposits and NCD

(100 million yen)



Ref: Balance of assets in custody

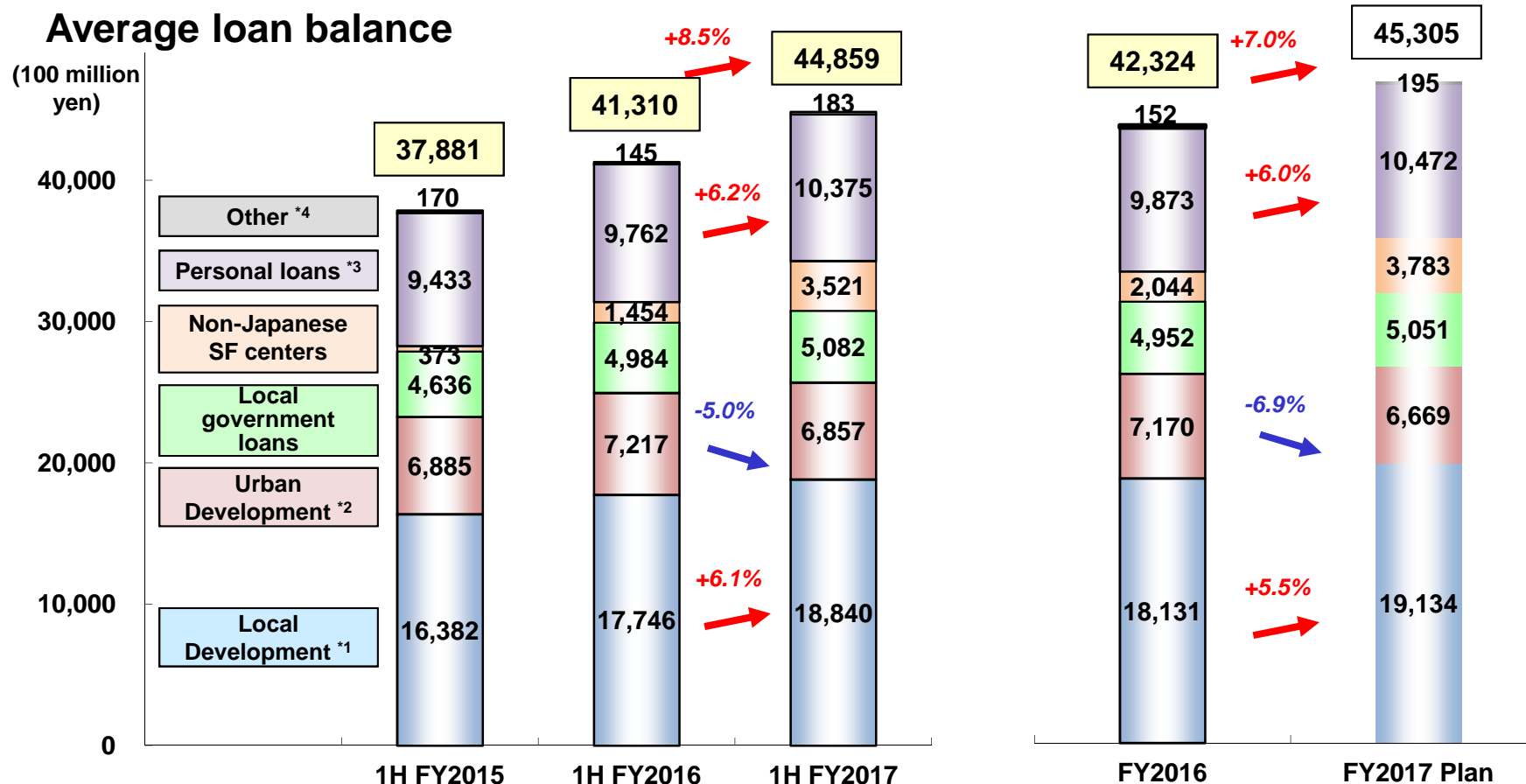
(100 million yen)	1H FY2015	1H FY2016	1H FY2017	
			Change	Change
Public bonds	3,012	2,864	-148	2,931 67
Investment trusts (1)	1,878	1,574	-304	1,450 -124
Financial instrument intermediary services	1,821	2,061	240	1,986 -75
Investment trust portion (2)	761	862	101	766 -96
Insurance	3,358	3,447	89	3,453 6
Bank parent	10,069	9,946	-123	9,820 -126
Total investment trusts (1)+(2)	2,639	2,436	-203	2,216 -220
Chugin Securities	851	830	-21	900 70

FY2016	FY2017 Plan	Change
2,880	2,955	75
1,539	1,440	-99
2,045	1,993	-52
840	758	-82
3,464	3,506	42
9,928	9,894	-34
2,379	2,198	-181
830	885	55

\* Public bonds are based on the value of the average balance. Investment trusts are based on the average balance of net assets. Financial instrument intermediary services are based on the average balance of the acquisition value. Insurance is based on the average balance taking into account cancellations. Chugin securities are based on the ending balance of bonds, equities and investment trusts.

- Both private client and corporate client deposits are growing steadily.

# 1H FY2017 Earnings Results –Major accounts (2) Loans–



\*1 Local development: Regions other than Tokyo and Osaka

\*2 Urban development: Tokyo and Osaka

\*3 Part of the recording methods have been changed from 1H FY2017. (Some of the loans that were recorded under "Local development" were changed to "Personal loans." Amount: 10.4 billion yen)

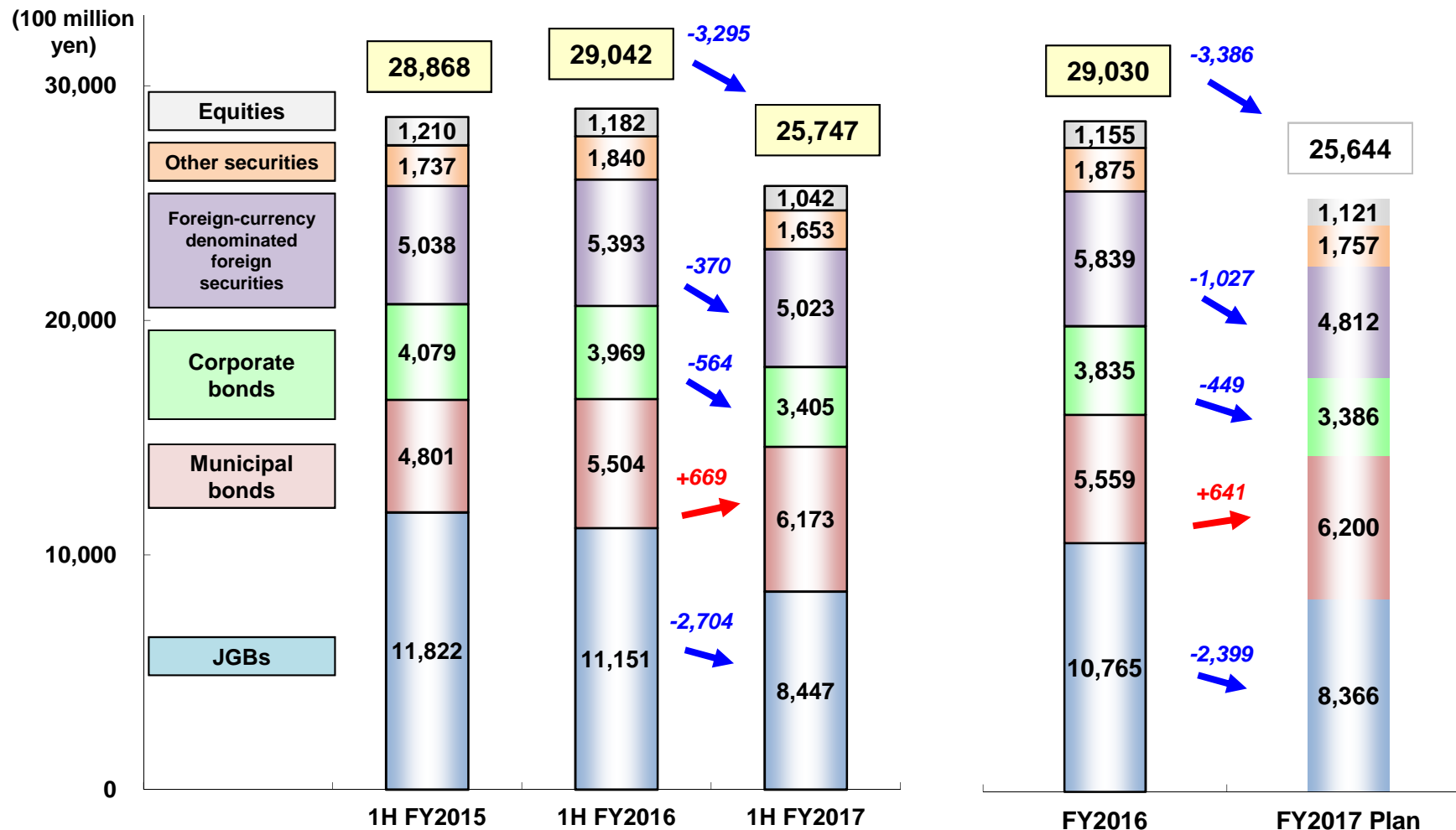
\*4 Other: Hong Kong branch, credit cashing

### Loan/deposit ratio

End of Sep. 2008	End of Sep. 2009	End of Sep. 2010	End of Sep. 2011	End of Sep. 2012	End of Sep. 2013	End of Sep. 2014	End of Sep. 2015	End of Sep. 2016	End of Sep. 2017
65.1%	64.8%	63.0%	61.5%	61.4%	59.7%	61.0%	63.6%	67.4%	70.5%

- In 1H FY2017, the annual growth rate of total loans was +8.5%, due to efforts to increase loans, mainly in local development.
- We will continue to strengthen loans by identifying and capturing fund demand.

### Average balance of securities

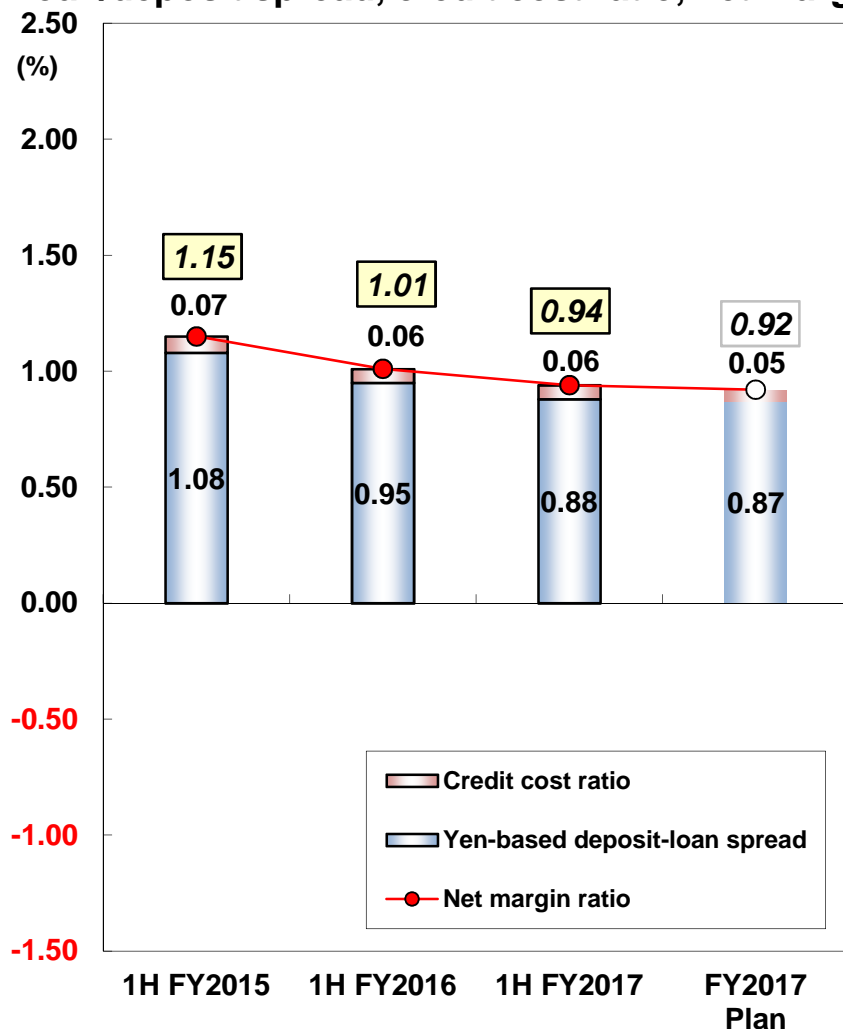


- The balance of securities decreased as we shifted from securities to loans.
- Although we will maintain the balance of equity assets, we intend to reduce investment in domestic and foreign bonds in consideration of interest rate risk.

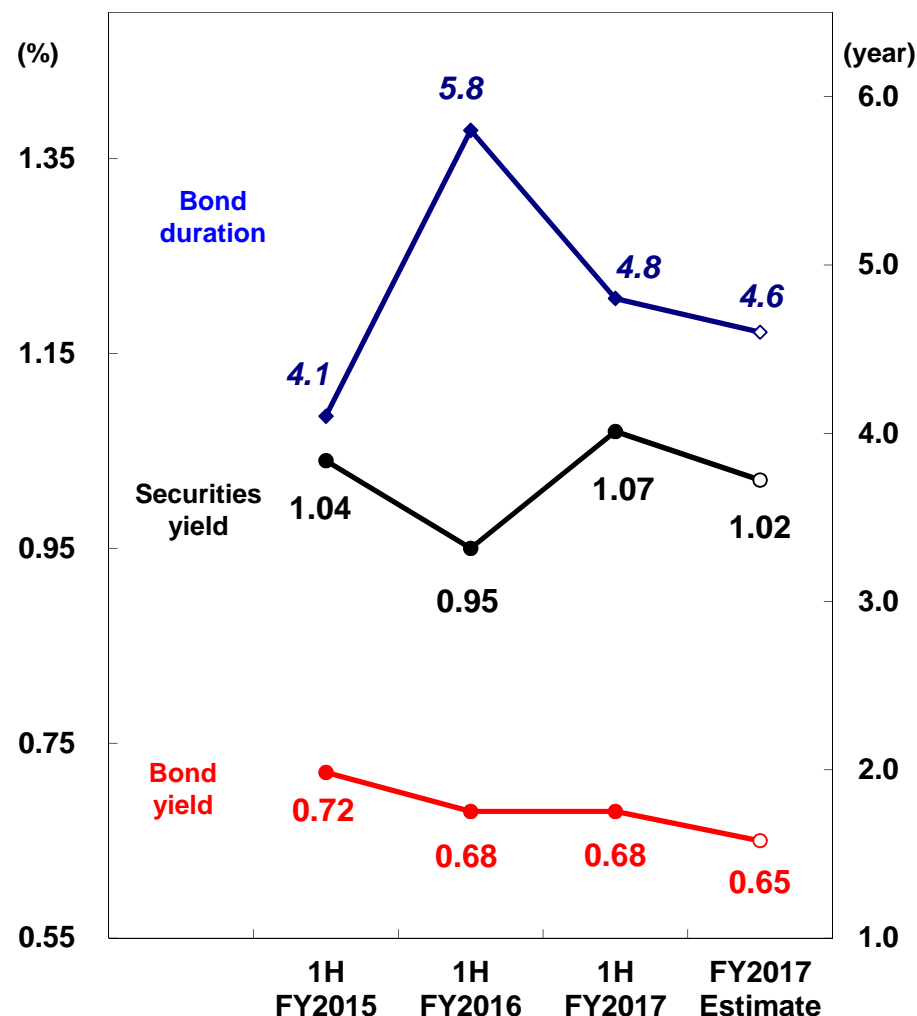


# 1H FY2017 Earnings Results –Major yields and margins–

### Loan/deposit spread, credit cost ratio, net margin

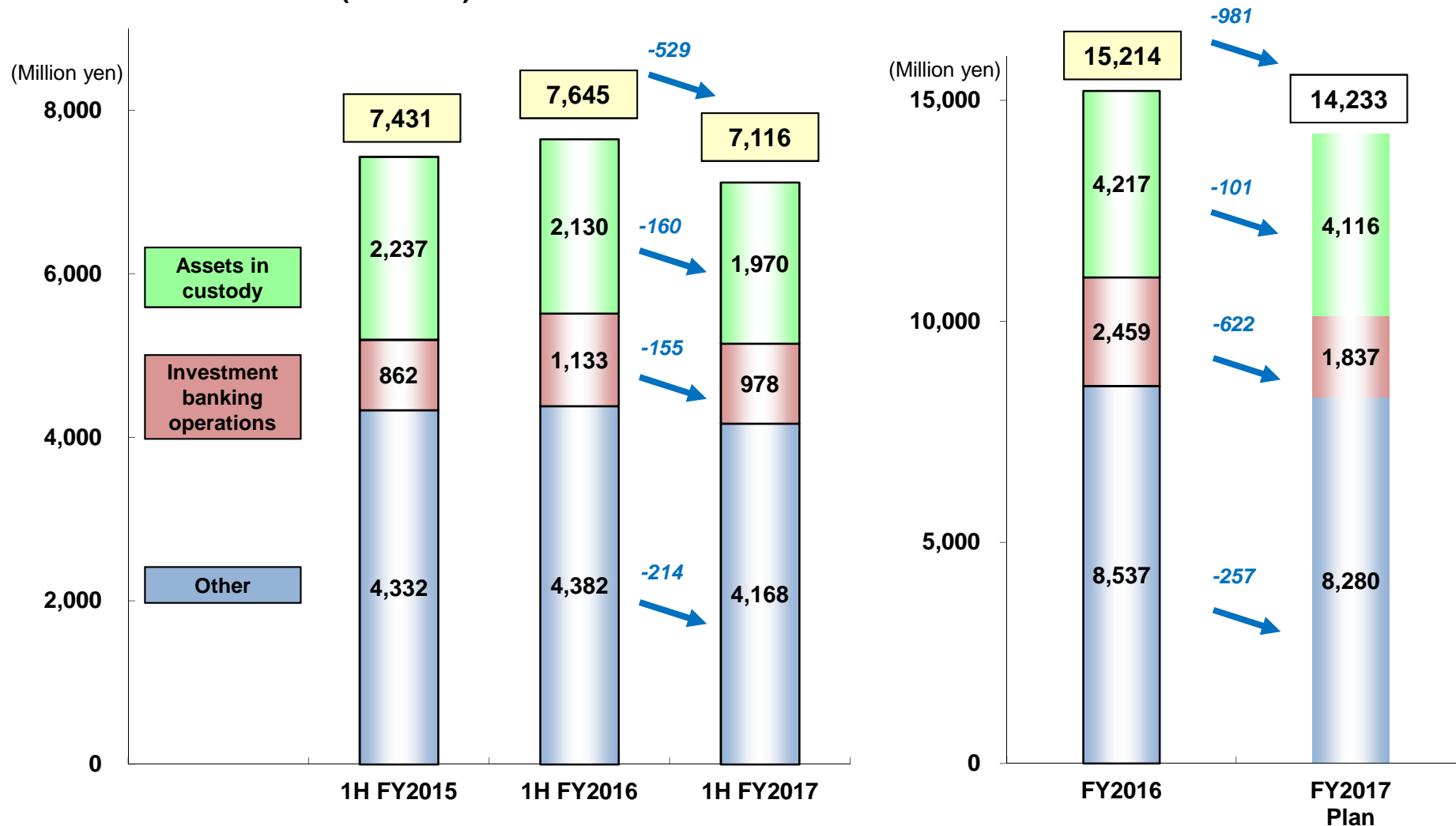


### Securities yield and duration



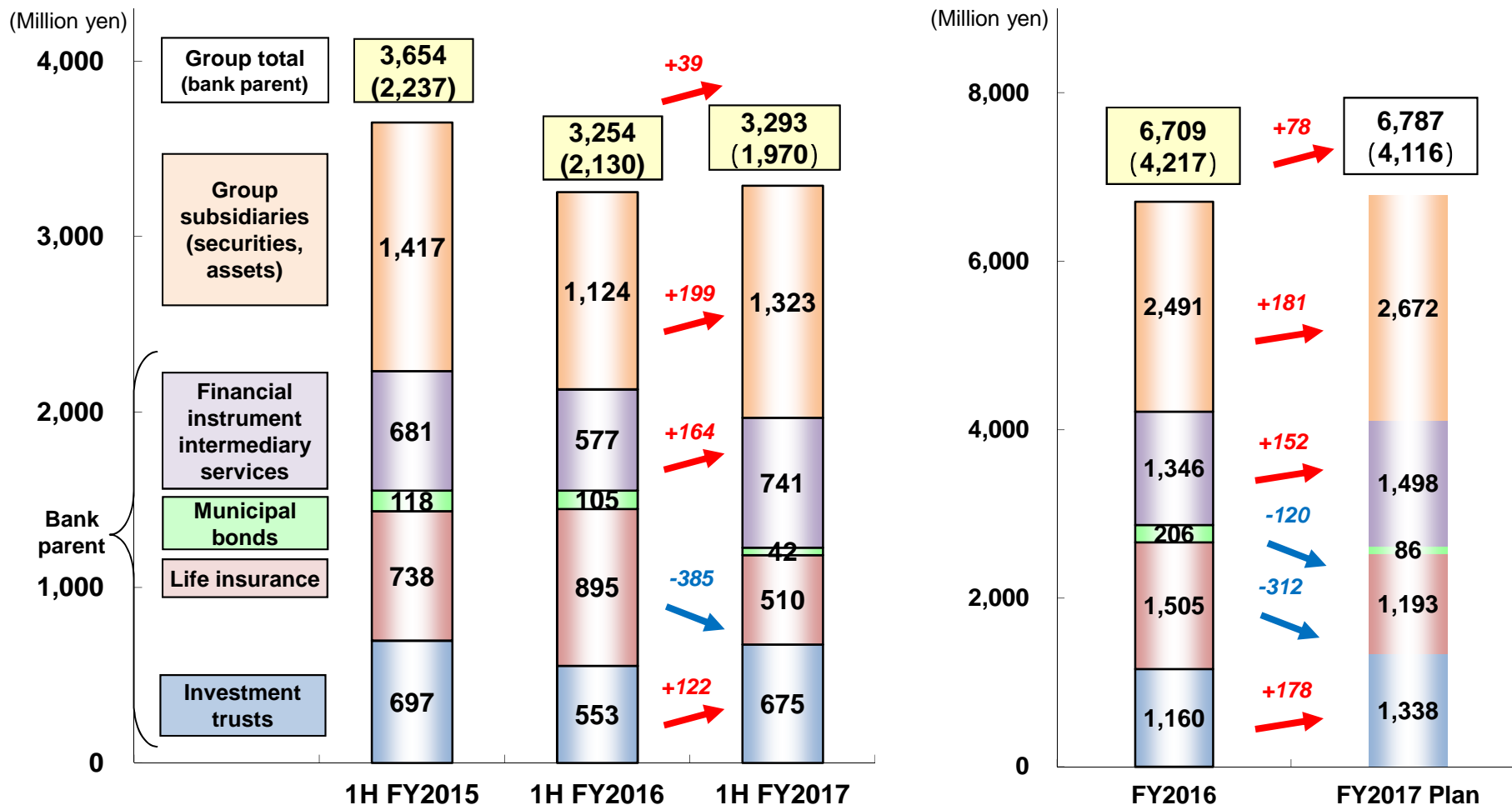
- The drop in the loan/deposit spread was smaller than last year. For the full year of FY2017, we plan the ratio to be similar to that of 1H FY2017.
- We maintained a securities yield, which includes equity and investment trust yields, of around 1%, although the bond yield is on a declining trend. Bond duration shortened.

## Fee and commission (revenue) trends



- Fees and commissions revenue decreased, due to a drop in assets in custody and a decline in gains from investment banking operations.

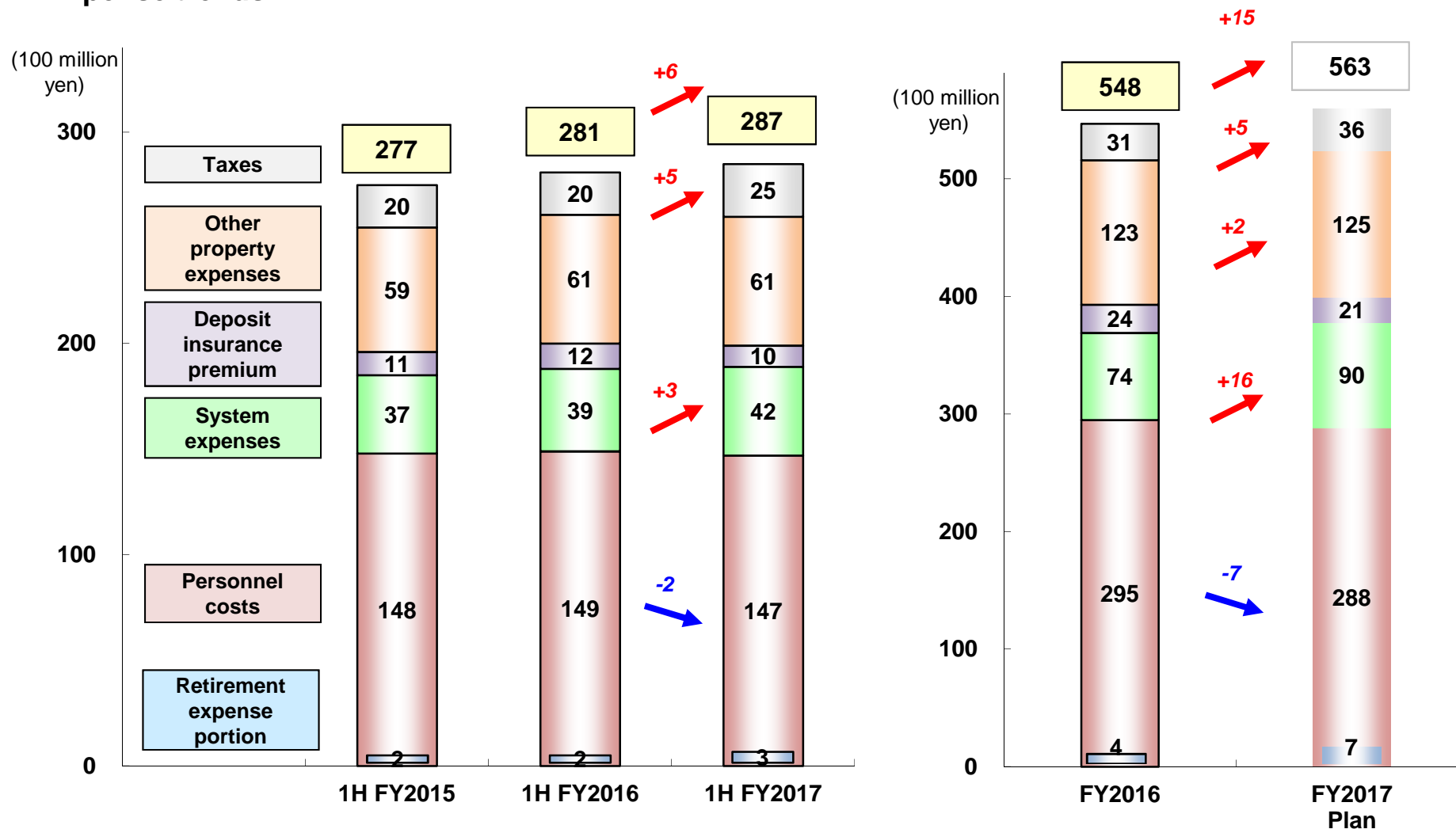
## Revenues related to assets in custody



- Group total revenue maintained last year's level due to an increase in financial instruments intermediary revenue in cooperation with group subsidiaries, despite a decrease in insurance revenue.

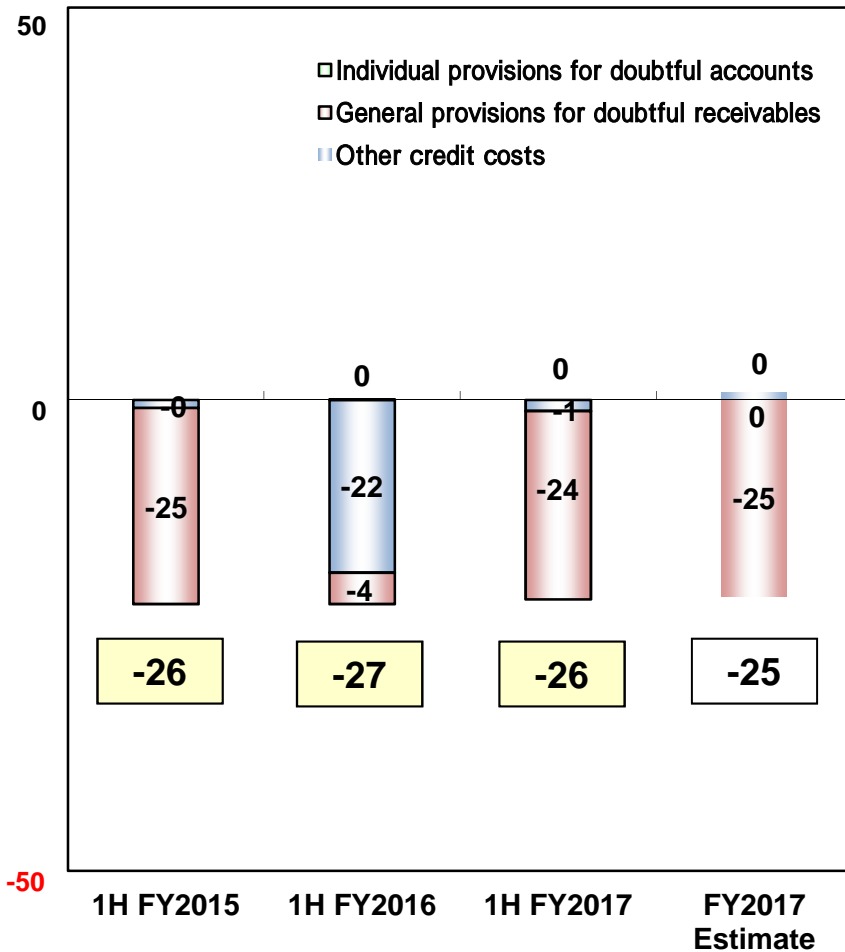
# 1H FY2017 Earnings Results –Change in expenses–

## Expense trends

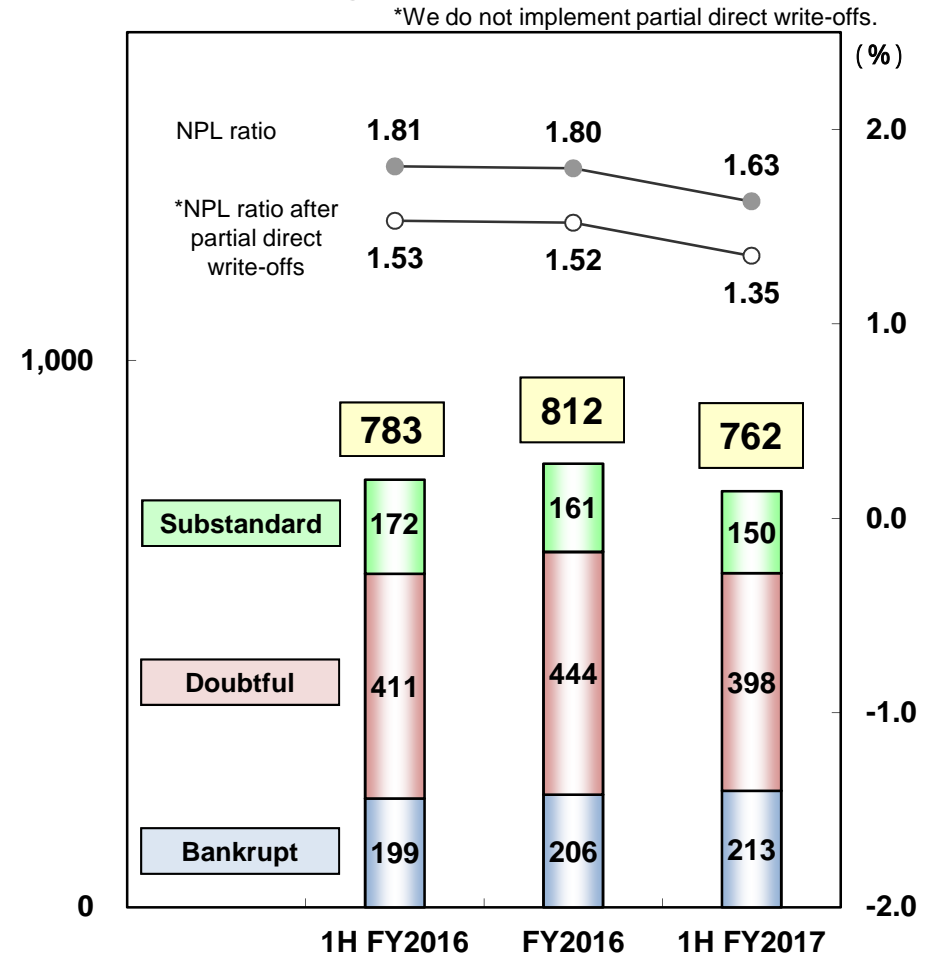


- Expenses increased due to a rise in costs related to the launch of TSUBASA (tax, system expenses) and structural reform costs.

**Credit cost trends** (100 million yen)



**Non-performing loan (NPL) trends** (100 million yen)



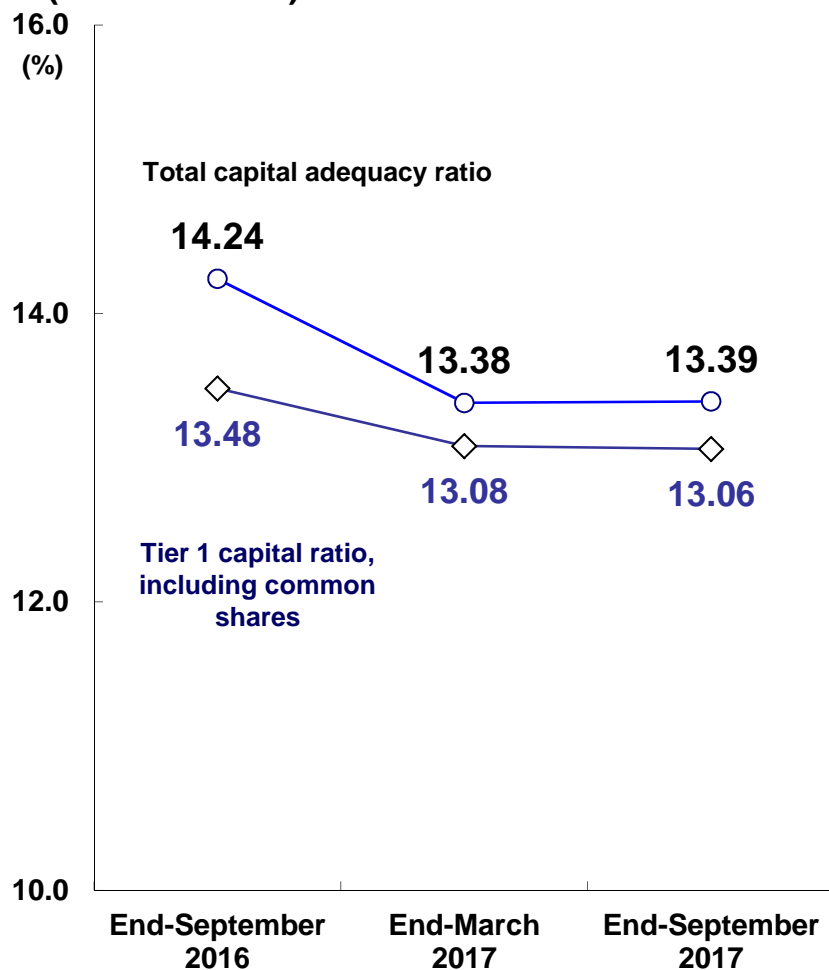
Credit cost = general provisions for doubtful receivables + individual provisions for doubtful accounts + loan write-offs + specific foreign borrowers + provisions for loss on claim sales + loss on claim sales — gain on reversal to loan loss account

Other credit costs = Loan loss write-offs, specific foreign borrowers, provisions for loss on claim sales, loss on claim sales

- Credit cost was reversed due to a decline in the loan loss ratio forecast.
- New loan loss remained at a low level due to clients' business performance improvement and business improvement support. NPL ratio also declined.

# 1H FY2017 Earnings Results –Capital adequacy ratio–

## Capital adequacy ratio (Basel III) (consolidated) trends



## Capital adequacy (consolidated)

(100 million yen)

	FY2016	1H FY2017	YoY
<b>Total equity</b>	<b>4,978</b>	<b>5,174</b>	<b>196</b>
Tier 1, including common shares	4,863	5,046	183
Tier II	114	127	13
<b>Risk weighted assets, etc.</b>	<b>37,181</b>	<b>38,642</b>	<b>1,461</b>
Credit risks	35,494	36,977	1,483
Operational risks	1,687	1,665	-22

## Other Basel regulations

	FY2016	1H FY2017	<Regulatory standards>
Consolidated leverage ratio	5.70%	5.89%	3% or more from FY2017
Consolidated liquidity coverage ratio (LCR)	114.9%	113.1%	80% and above

- Total capital adequacy ratio and Tier 1 capital ratio, including common shares, remained at stable levels.

## **Section II**

# **FY2017 Forecasts and Major Initiatives**

# FY2017 Forecast –Earnings Forecasts–

Parent (100 million yen)	FY2016	FY2017		
		Plan	YoY	Vs. Initial plan
<b>Core business gross profit</b>	<b>820</b>	<b>779</b>	<b>-41</b>	<b>19</b>
Interest income	677	649	-28	3
Fees and commissions	152	142	-10	-3
Other operating income	-9	-12	-3	19
<b>Expenses (-)</b>	<b>-548</b>	<b>-563</b>	<b>-15</b>	<b>-4</b>
<b>Core business net profit</b>	<b>271</b>	<b>215</b>	<b>-56</b>	<b>15</b>
<b>OHR (%)</b>	<b>66.9</b>	<b>72.3</b>	<b>5.4</b>	<b>-1.2</b>
Credit expense (+ is reversal profit)	2	25	23	3
Bond sales gains/redemption	-20	17	37	17
Equity sales gains/redemption	43	10	-33	-14
Other	-7	-3	4	2
<b>Recurring profit</b>	<b>289</b>	<b>264</b>	<b>-25</b>	<b>23</b>
Extraordinary gain/loss	-4	-3	1	1
<b>Net income</b>	<b>190</b>	<b>180</b>	<b>-10</b>	<b>16</b>
<b>Consolidated</b>				
<b>Recurring profit</b>	<b>316</b>	<b>289</b>	<b>-27</b>	<b>28</b>
<b>Net income*</b>	<b>203</b>	<b>195</b>	<b>-8</b>	<b>20</b>

Recurring profit and net income expected to underperform YoY but outperform initial plans

## YoY factors

### (Negative factors)

- Decline in loan interest
- Decline in securities interest
- Decline in fees and commissions mainly due to a decrease in gains from investment banking operations
- Increase in expenses (mainly TSUBASA-related)

### (Positive factors)

- Decline in credit cost (increase in reversal)

## Factors versus initial plan

### (Positive factors)

- Increase in loan interest
- Decline in foreign-currency procurement costs

### (Negative factors)

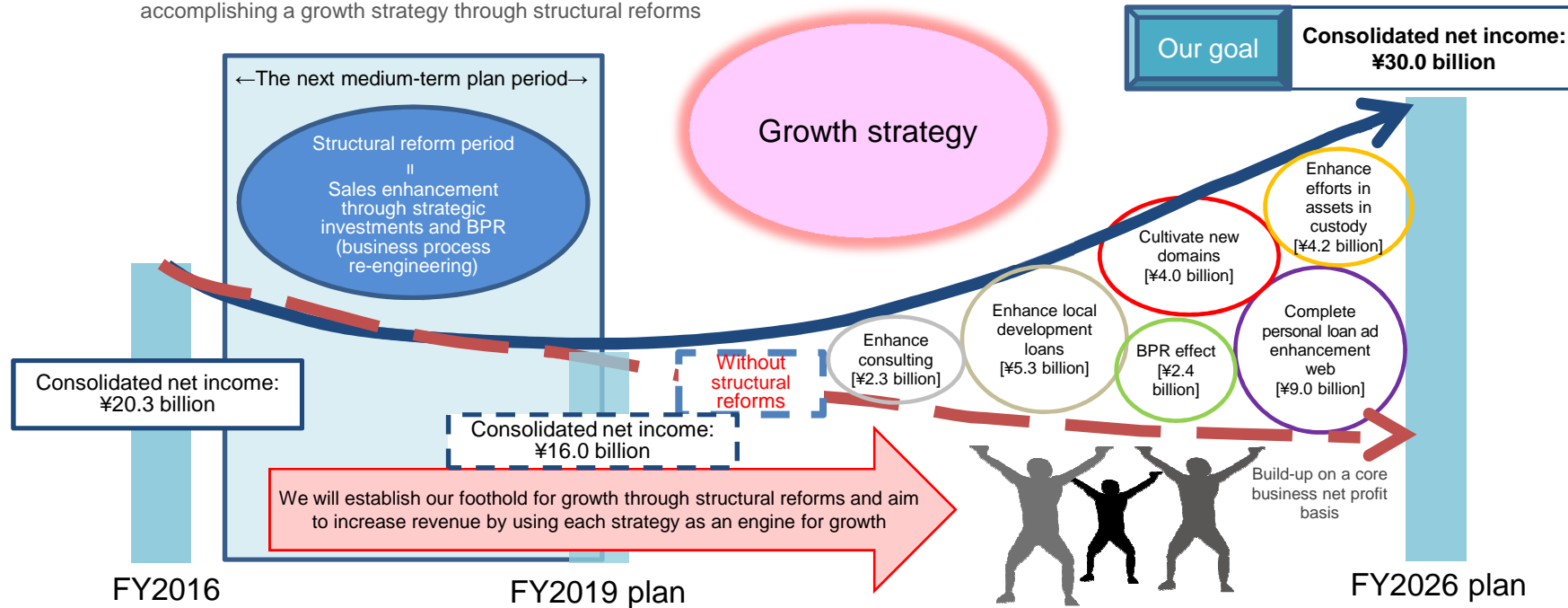
- Decline in fees and commissions mainly due to a drop in assets in custody

\*Consolidated net income is net income attributable to owners of parent.



—The Long-Term Vision—Vision 2027: Plan for Creating the Future Together—

Although a drop in revenues is expected due to the interest environment and changes in social structures, we will aim to increase revenues by accomplishing a growth strategy through structural reforms



Framework for achievement of the long-term vision



Initiatives to create a rich future

- Improve the quality of services provided
- Expand opportunities to provide services



Initiatives to create foundations of management

- Enhance service provision capability
- Reform the stance of individual employees and the corporate culture

## Four major strategies to be implemented in the three-year period of Plan for Creating the Future Together: Stage I

### Improve the quality of services provided

We will focus on the “customer comes first” concept to provide better services

1. Advance local promotion activities
2. Strengthen sales activities based on life planning
3. Maximize group synergy
4. Cultivate new business domains

### Enhance service provision capability

We will develop human resources that support the Bank as well as enhance business management functions

8. Strengthen development of human resources
9. Implement organizational reforms
10. Enhance ALM functions
11. Manage costs

### Expand opportunities to provide services

We will create a structure that enables us to provide services anywhere and anytime, with the aim of becoming a bank that is the most familiar to and convenient for customers.

5. Restructure sales channels
6. Generate business hours and sales personnel
7. Re-allocate human resources

### Reform the stance of individual employees and the corporate culture

This forms the basis for all directors and employees of the Group to be as one and take on challenges positively

12. Reform stance of Individual Employees and corporate culture, improve customer and employee satisfaction
13. Compliance

Initiatives to create a rich future

Initiatives to create foundations of management

Through the four major strategies



“Creating with Our Community, Customers and Employees a Rich Future that We Can All Share”

# Improve the Quality of Services Provided

- Strengthen business assessment, which is the core of the local promotion project, at both the HQ and business offices.
- Strive to advance consulting capabilities and enhance local promotion activities based on business assessment.

## Advance local promotion activities

### Efforts in business assessment

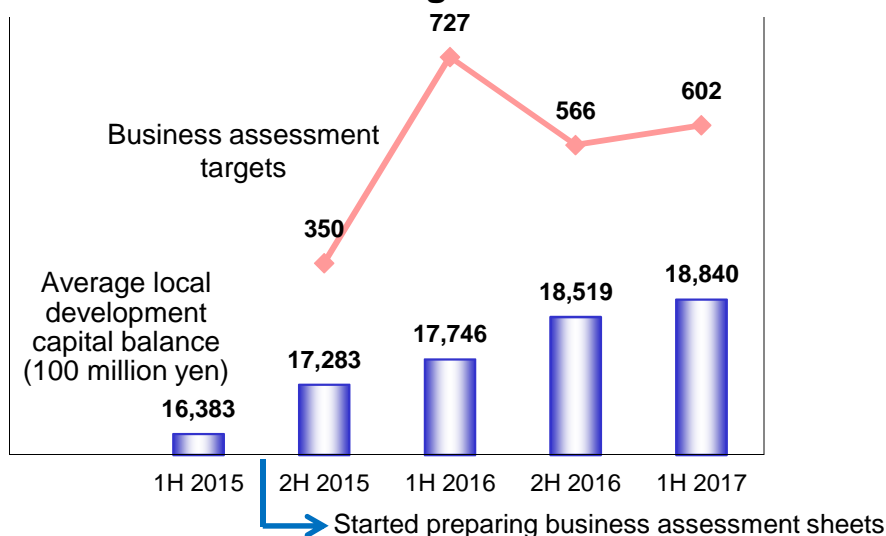
#### Establish a foundation for local promotion activities by the R&C Center

- Carry out external secondment of personnel to develop experts in business assessment
- Accumulate know-how through industry surveys

#### Strengthen negotiation abilities of business office employees

- Select targets and have the entire branch get actively involved
- Improve quality of business assessment based on feedback from clients

### Average local development capital balance and business assessment targets



### Initiatives in local promotion activities

#### Revitalize the community by promoting innovation

- Open an innovation school and hold contests in the Okayama Innovation Project
- Establish a Capital Dept. in the subsidiary and strengthen fund operation/management business that promotes community revitalization

#### Advance consulting capabilities

- Increase external secondment and training; appoint dedicated personnel
- Cooperate with external partners and support formulation of business improvement plan
- Establish a system for full-scale implementation of consulting operations

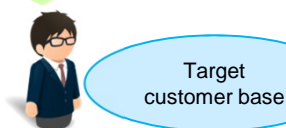
#### Image of consulting operations

Consulting growth support  
E.g., Formulate management plan  
Establish managerial accounting system  
Establish personnel system

Expand generation shift transactions  
(Business successions, M&As, etc.)

Expand financial support transactions  
(401K, derivatives, etc.)

Expand growth transactions  
(Capex, business matching, etc.)



Start-up phase

Growth phase

Maturity phase

Rehabilitation phase

# Improve the Quality of Services Provided

- Improve power to offer assets in custody and personal loans, and conduct sales of totally coordinated services according to customers' life stages.
- Enhance call centers and establish a system to address personal loan needs according to life plans.

## Strengthen sales activities based on life planning

### Conduct life plan support activities

- Custom-made proposals based on cross-selling according to life stages
- Strengthen discovery of needs concerning inheritance and proposals addressing inheritance-related issues

### Increase depositors of five kinds of assets in custody

- Continue sales activities by all staff based on an assessment system that focuses on the number of depositors and balance
- Further enhance product lineup
- Continue to balance maintenance activities by offering adequate aftersales follow-ups
- Strengthen promotion of iDeCo, Tsumitate NISA, and level premium insurance, etc.

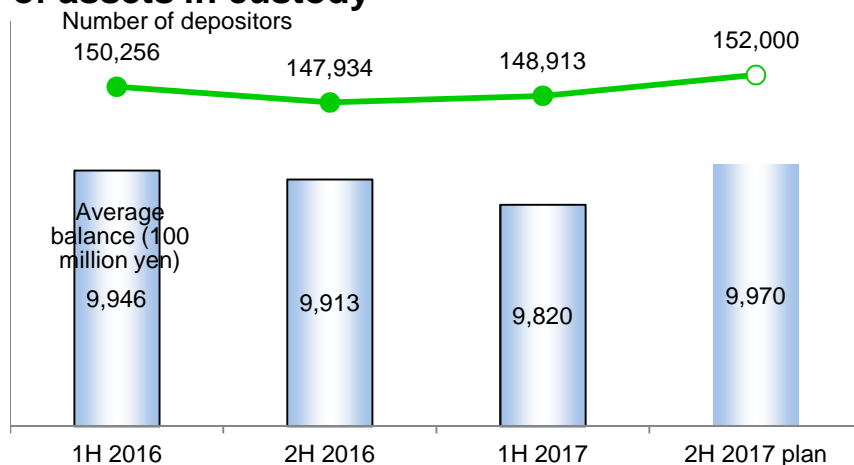
### Improve power to offer assets in custody

- Improve knowledge and skills through training plaza and education
- Increase stores that offer financial instrument intermediary operations as well as product lineup
- Improve comprehensive proposal power with Hoken Plaza

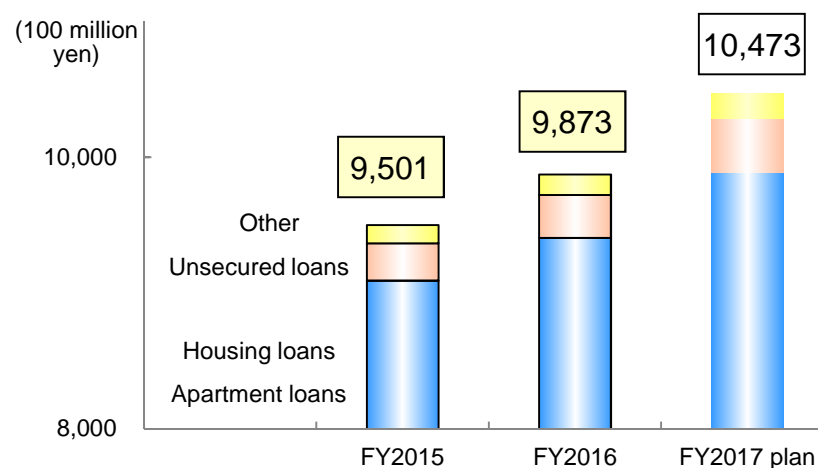
### Promote personal loans

- Improve power to offer personal loans by strengthening the training system
- Address funding needs by enhancing call centers

## Number of depositors and average balance of assets in custody



## Average balance of personal loans



# Improve the Quality of Services Provided

■ Strengthen Group strategy and consolidated management, and make efforts in maximizing group synergies and cultivating new business domains

## Maximize group synergy

- Establish a group management structure
- Improve effectiveness of performance management and speed up decision making by delegation of authority
- Strengthen sales cooperation
- Share know-how, revitalize personnel exchanges and allocate personnel in strategic domains
- Purchase shares from shareholders outside the Group (completed in FY2016)
- Incorporate profits of consolidated subsidiaries in their entirety and strengthen governance

## Cultivate new business domains

- Study and gather information toward entry into new business
- <Priority businesses>
  - Business that can utilize existing sales platforms
  - Business that can expect synergetic effects with the main business
  - Business with high market growth and profitability
- Consider partnership with different industries and other banks

### — Performance of consolidated subsidiaries —

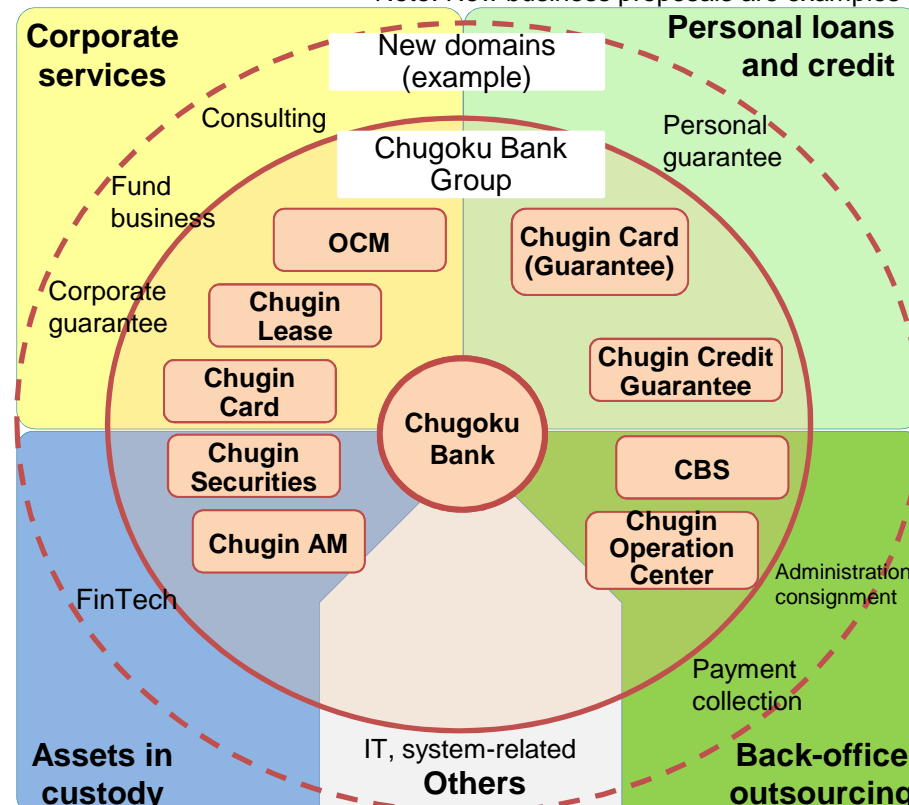
(Millions of yen)

Company	Major initiatives during Medium-Term Management Plan period	FY2017 forecast	
		Recurring profit	Net income
Chugin Lease	• Overseas projects, initiatives in new areas such as auto lease business	768	503
Chugin Credit Guarantee	• Partnership in loan promotion • Increase in risk tolerance	1,191	782
Chugin Card	• Promotion of platinum corporate card • Increase in credit card member stores	342	228
Chugin Asset Management	• Increase in publicly offered investment trusts • Improvement in performance	32	24
Chugin Securities	• Enhancement of product lineup • Promotion of introduction-type intermediary business	441	301
CBS	• Promotion of BPR through increase in contracted business from the Bank	183	117
Chugin Operation Center		25	13
Seven consolidated subsidiaries' total		2,982	1,968

In FY2018–FY2019, we will seek further expansion of performance while securing recurring profit of three billion yen and net income of two billion yen.

### — Map of Group strategy —

Note: New business proposals are examples



# Expand Opportunities to Provide Services

- Carry out thorough structural reforms at the HQ and business offices to establish a customer-oriented sales activity style.
- Clarify “offensive” and “defensive” areas according to the market environment and reallocate strategic personnel.

## Generating business hours and sales personnel

### Initiatives of HQ BPR

- Consider introducing efficiency systems, such as RPA and electronic work flows
- Effective meeting operation, promotion of authority delegation, thorough pursuit of efficiency

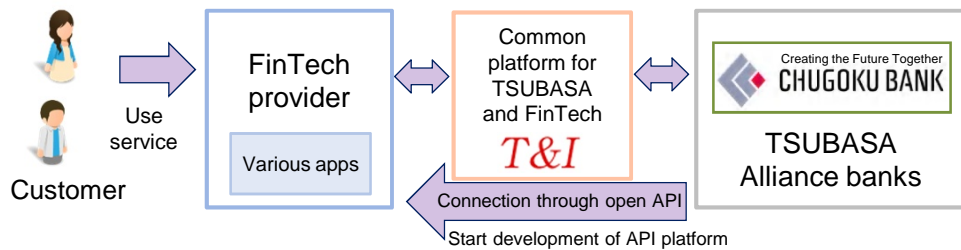
Plan to reduce around 70 personnel in the HQ during FY2017

### Initiatives of sales BPR

- To generate business hours, consider introducing various systems that support efficient sales activities
- Consider concentrating back-office work of business offices to HQ

## Restructure sales channels

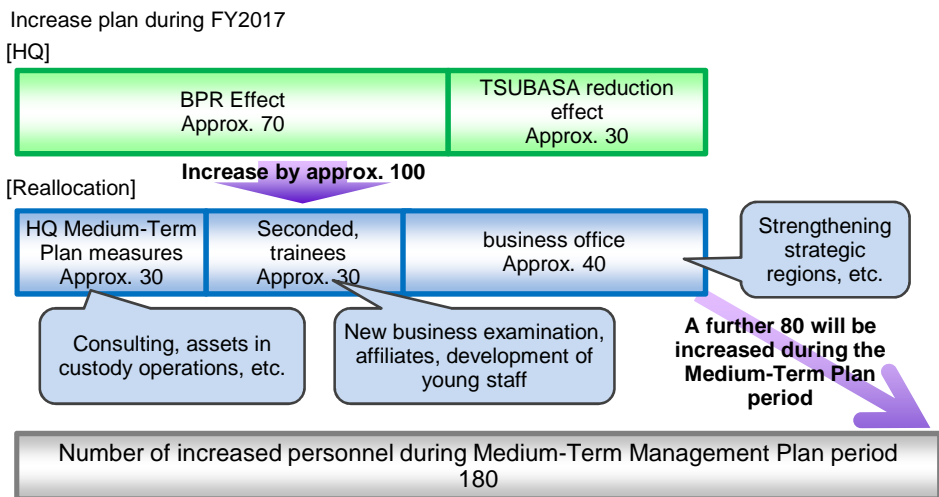
### Initiatives in FinTech



### Improve Internet convenience

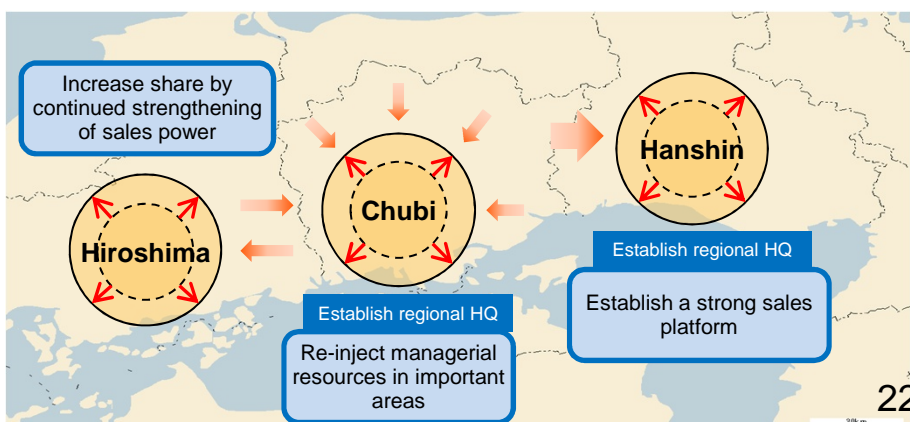
- Start sales of web-contained level premium insurance
- Advance marketing by analyzing behavior on the web

## Increase sales personnel



## Re-allocate human resources

### Establish Kurashiki and Hanshin Regional HQ



# Enhance Service Provision Capability

- Transform into a HQ organization that supports business offices' local promotion activities and life plan support activities from a customer's perspective.
- Thoroughly reduce recurring expenses and expand room for strategic investment.

## Strengthen development of human resources

### Strengthen business skills and expertise

- Reestablish a development system that indicates the achievement of skills by age group, develops strong points, and improves weaknesses
- Enhance long-term trainee program, increase external secondment for personnel development purpose

### Strengthen human capabilities and management skills

- Introduce "360 degrees assessment" of management
- Introduce a scheme that can objectively instruct and assess superiors' initiatives for subordinates in personnel development such as thorough behavior management and OJT

## Enhance ALM functions

### Strengthen the risk appetite framework

- Increase opportunities to discuss future direction of risk taking and advance the risk appetite framework

Consolidated capital adequacy ratio

	FY2016 Actual	1H FY2017 Actual (preliminary)	FY2017 Estimate	FY2019 Plan
Consolidated capital adequacy ratio (year on year)	13.38% (-1.56%)	13.39% (-0.85%)	Estimated to secure 12%	Secure 12% level

## Implement organizational reforms

(reorganization planned for April 2018)

### Reorganization to advance local promotion activities

Overall corporate solution sales such as business assessments, foundation assistance, business matching and consulting

Unify handling through reorganization  
(Person in charge of solutions)

- Improve customers' corporate value by providing unified solutions sales

### Reorganization to strengthen life planning sales

[Product strategy]  
Card loans, housing loans, assets in custody, etc.

[Channel strategy]  
business offices, housing loan centers, Internet, etc.

Unify handling through reorganization  
(Person in charge of life plan channels)

- Unify channels and products to improve customer satisfaction

## Manage costs

### A balanced investment and cost strategy

- Shift investment capacity to strategic projects through reestablishment of IT governance and fundamental review of recurring system expenses
- Start trial introduction of RPA by HQ BPR

10-year strategic system investment project (investment basis)

	FY2017 Estimate	FY2018 Estimate	FY2019 Estimate	Medium-Term Plan period Sum total
(100 million yen)				
This plan	4.1	17.4	11.5	33.0
(vs. Medium-Term Plan)	(0.9)	(-1.2)	(0.3)	(0.0)

■ Share the 10-year strategy plan among all directors and employees, and transform into a free and open-minded corporate culture based on *Chugin-no-kokoro* (Philosophy of Chugoku Bank).

## Reform stance and corporate culture, improve customer and employee satisfaction

### Initiatives in the reform of stance and corporate culture

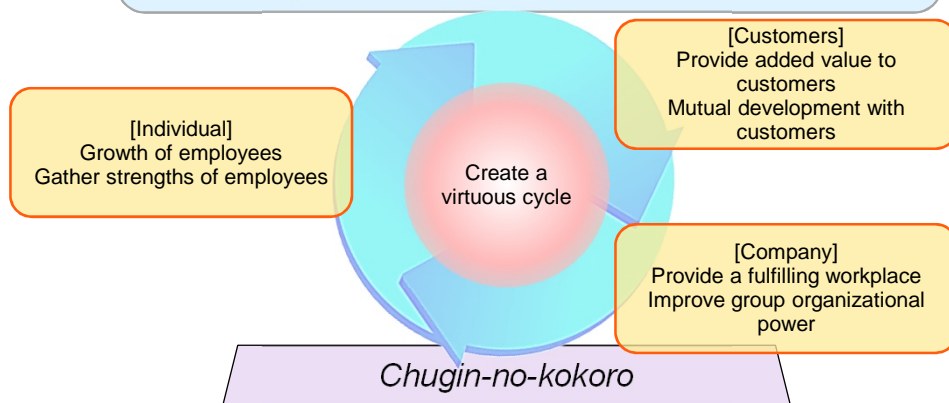
#### Introduce flat meetings\*1

- Seek to integrate top-down and bottom-up approaches and to achieve diversity

\*1. A place within the workplace to discuss serious matters freely, outside of one's position or status

#### Sympathy toward reforms (build a sense of unity among directors and employees)

- Directors visit offices and continue communication activities with employees in order to instill *Chugin-no-kokoro*
- Hold the Bank's first rally of all employees to share the long-term vision, "Vision 2027: Plan for Creating the Future Together"



## Compliance

- Continue to remind all employees that compliance has priority over everything
- Increase opportunities of training by level and meetings between management and employees to instill *Chugin-no-kokoro* and strengthen governance functions

### Initiatives to improve CS and ES

#### Priority policy of work style reforms

Long-term vision: Creating with Our Community, Customers and Employees a Rich Future that We Can All Share

*Chugin-no-kokoro*: "We will provide a place for fulfillment and growth."



#### Awareness reforms

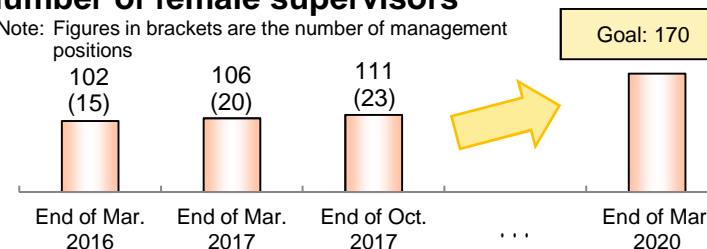
- Mindset: *Ikuboss*, promote work-life balance, etc.
  - Revitalize communication: Recruitment for the third term of Niji-ro Heart Project, introduction of F Leader\*2 system
- \*2. New leaders that operate flat meetings

#### System establishment

- Promote diverse work styles: Utilize staggered work hours, etc.
- Review operations: Fundamental review of existing operations through BPRPJ

### Number of female supervisors

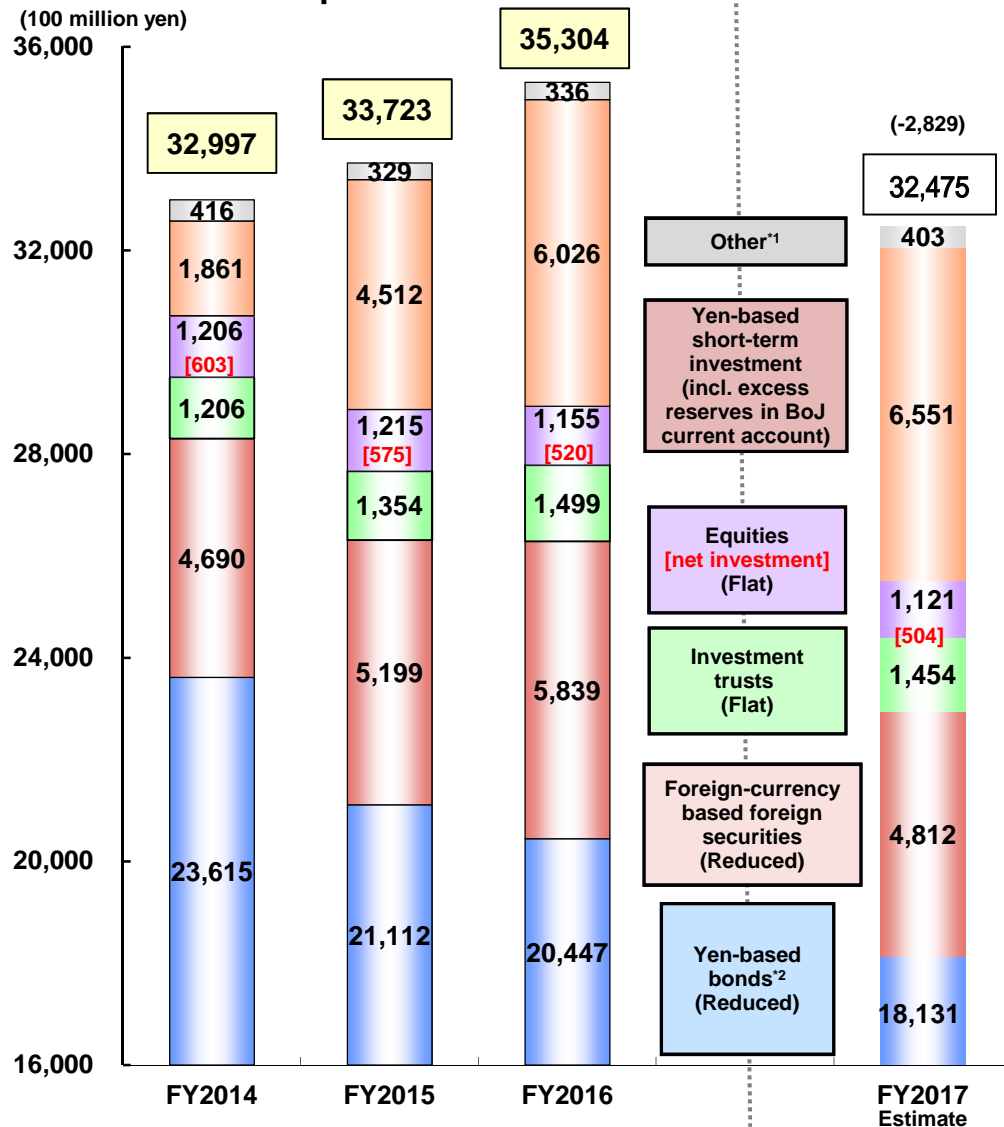
Note: Figures in brackets are the number of management positions





# Securities Management Strategies –Asset Allocation Trends–

Premise: plans for average balance of market operations (100 million yen)

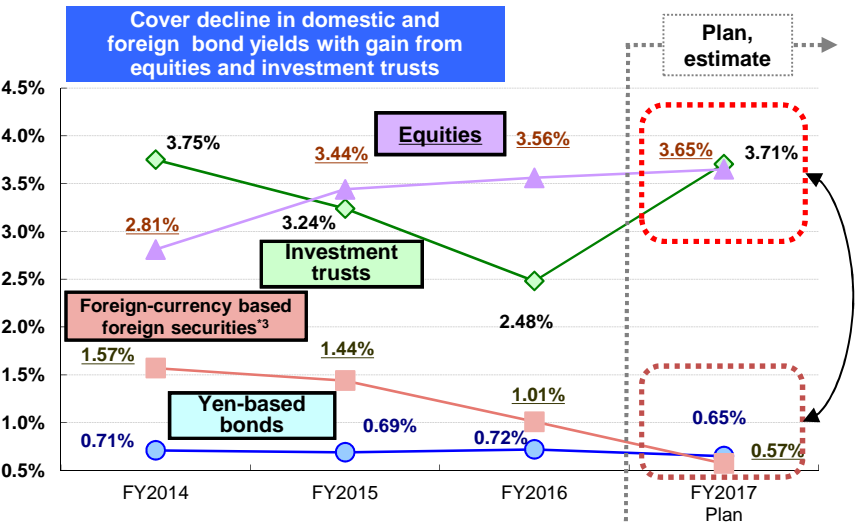


## Investment policy for 2H 2017

**Basic policy**  
 • Carry out flexible asset allocation operation

- ◇ In yen-based bonds, reduce reinvestment and retain capacity for risk taking.
- ◇ In foreign bonds, seek to improve portfolio yield through bond switching.
- ◇ In investment trusts, conduct risk taking mainly in domestic and foreign equity assets.
- ◇ In equities, improve stock selection abilities and invest based on priority themes.

## Yields by type of investment asset

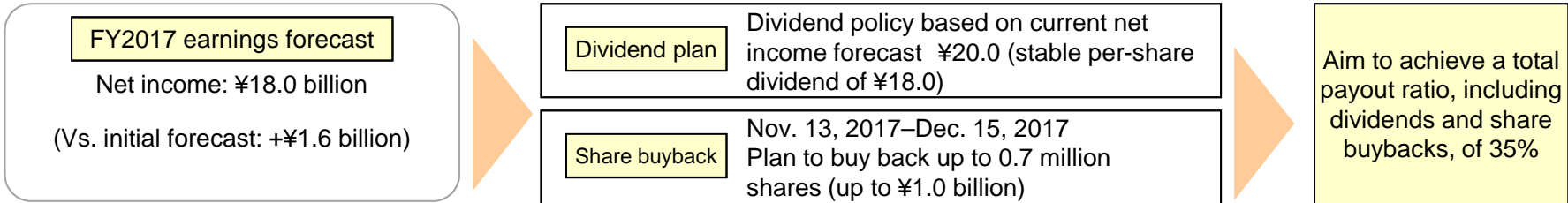


\*1: Other: Money held in trust, derivative time deposits, long-term beneficiary rights, investment partnerships, etc.  
 \*2: Includes yen-denominated foreign bonds.

\*3: Management-procurement spread for foreign currency-based foreign securities

■ Annual per-share dividend of ¥20 and total payout ratio of 35%.

## Dividend plan for FY2017



**Shareholder hospitality** Offer regional products as perks via the five TSUBASA banks

## Shareholder returns

(1 billion yen)

	Net income [1]	Total dividends [2]		Payout ratio [2] ÷ [1]	Share buybacks [3]	Unreturned portion [4]	Total payout ratio ([2] + [3] + [4]) ÷ [1]
			Per-share dividend (interim)				
End-Mar 2018 Est	<b>18.0</b>	<b>3.83</b>	<b>¥20.00</b> (¥10.00)	<b>21.3%</b>	Announced amount ¥1.0 billion	<b>¥1.5 billion</b>	<b>about 35%</b>
End-Mar 2017	<b>19.0</b>	<b>3.85</b>	<b>¥20.00</b> (¥10.00)	<b>20.3%</b>	<b>2.9</b>	<b>0</b>	<b>35.5%</b>
End-Mar 2016	<b>25.9</b>	<b>3.92</b>	<b>¥20.00</b> (¥10.00)	<b>15.1%</b>	<b>5.2</b>	<b>0</b>	<b>35.2%</b>
End-Mar 2015	<b>20.9</b>	<b>3.56</b>	<b>¥18.00</b> (¥8.00)	<b>17.0%</b>	<b>3.3</b>	<b>0</b>	<b>32.8%</b>
End-Mar 2014	<b>27.0</b>	<b>3.23</b>	<b>¥16.00</b> (¥7.50)	<b>12.0%</b>	<b>4.9</b>	<b>0</b>	<b>30.3%</b>

\*Share buyback as a factor in calculating payout ratio: Calculated based on buybacks during one year from time of shareholders meeting.



This document includes forward-looking statements. These statements are not a guarantee of future performance, and involve risks and uncertainties. Note that future performance could possibly differ from the goals and targets herein due to factors, including changes in the business environment.